

CANCER PREVENTION & RESEARCH INSTITUTE OF TEXAS

IA # 04-16 – INTERNAL AUDIT REPORT OVER CASH MANAGEMENT

REPORT DATE: AUGUST 12, 2016

ISSUED: AUGUST 26, 2016

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The Oversight Committee
Cancer Prevention and Research Institute of Texas
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This report presents the results of the internal audit procedures performed for the Cancer Prevention and Research Institute of Texas (CPRIT) during the period July 25, 2016, through August 12, 2016, relating to CPRIT's Cash Management process.

The objectives of this internal audit were to evaluate the design and effectiveness of CPRIT's Cash Management process. The objectives were organized as follows:

- A. Verify that internal controls over the cash management processes, including cash forecasting, electronic funds transfer and cancellation of warrants, are designed to ensure the effective management of the processes and address all key risks.
- B. Ensure that the controls in place over high-risk processes and procedures are operating effectively to ensure that Cash Management functions are appropriately forecasted, recorded, monitored, and reported.

To accomplish these objectives, we conducted interviews with key personnel responsible for the Cash Management process. We also reviewed documentation and performed specific testing procedures to assess controls. Procedures were performed at the Cancer Prevention and Research Institute of Texas office and were completed on August 12, 2016.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.
Austin, Texas
August 26, 2016

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BACKGROUND

CPRIT's Chief Operating Officer (COO) is responsible for tracking and forecasting agency cash inflows and outflows. The COO maintains a workbook which contains a schedule of past and future bond issuances based on anticipated grant expenditures and approved agency funding. Expenditures considered in the workbook are broken down into the following three categories:

- Academic and Product Development Research Grants
- Prevention Grants
- Administrative Expenditures

Key inputs of the workbook include past bond issuance amounts and expenditures made to-date for all three categories. CPRIT bases its cash flow requirements on authorizing approximately \$300,000,000 per year in grant expenditures. The output from the forecast indicates the anticipated amount of bond funding required for the next quarter. Based on the forecast, CPRIT submits a request to the Texas Public Finance Authority (TPFA) to issue bonds on CPRIT's behalf.

Other Cash Management functions include payment processing and management of access to key treasury systems. CPRIT utilizes a direct deposit payment method for the majority of payments to grantees and vendors. The Accountant is responsible for setting up direct deposits in the Texas Identification Number System (TINS). All direct deposits payments approved by the COO are processed in the Uniform Statewide Accounting System (USAS) by the Accountant.

For payments not processed through the direct deposit method, CPRIT issues warrants to grantees or vendors. In cases of lost or old warrants, the Accountant is responsible for cancelling these warrants in the Treasury Operations System Service (TOSS) after the COO's approval is obtained. The cancellations are automatically recorded in the Uniform Statewide Accounting System (USAS), the agency's accounting system, upon processing in TOSS.

User access privileges in USAS are determined and monitored by the Operations Manager. Currently, the access to the system is available to the Accountant and Grant Accountants. Semiannually, the Operations Manager reviews the USAS Access Report to ensure that access is appropriate and up to date based on the user's position and job responsibilities.

AUDIT OBJECTIVE AND SCOPE

The audit focused on the Cash Management processes in place at CPRIT. We reviewed the procedures for appropriate risk and regulatory coverage and compliance. Key functions and sub-processes within the Cash Management process that were reviewed include:

- Cash Forecasting
- Electronic Funds Transfer (EFT) Processing
- Cancellation of Warrant Review and Approvals
- Uniform Statewide Accounting System (USAS) Privileges

The audit did not include authorization of expenditures, or the review, validation, reporting, or classification of payable invoices as these procedures were covered in the 2015 Internal Audit over Expenditures and the 2016 Internal Audit over Commodity and Service Contracts.

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Our procedures were designed to ensure relevant risks are covered and verified the following:

- All appropriate and key factors are considered when cash forecasting
- Cash forecasting is performed on an appropriate frequency and covers an appropriate time period
- Anticipated cash shortfalls are addressed appropriately and timely
- EFT disbursement requests are reviewed for accuracy and appropriateness
- Cancelled warrants are approved and accurately recorded
- Access to the USAS system is appropriate

The objectives of this internal audit were as follows:

- A. Verify that internal controls over the cash management processes, including cash forecasting, electronic funds transfer and cancellation of warrants, are designed to ensure the effective management of the processes and address all key risks.
- B. Ensure that the controls in place over high-risk processes and procedures are operating effectively to ensure that Cash Management functions are appropriately forecasted, recorded, monitored, and reported.

Our procedures included interviewing key personnel within Financial Operations to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state. The coverage period of the internal audit was from September 1, 2014, through June 30, 2016.

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EXECUTIVE SUMMARY

Through our interviews, evaluation of internal control design and testing of transactions we identified one finding. A finding is an item that has been identified and is considered to be a non-compliance issue with documented CPRIT policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover significant risks to CPRIT. This issue could have financial or operational implications.

A summary of our results, by audit objective, is provided in the table below. *See the Appendix for an overview of the Assessment and Risk Ratings.*

OVERALL ASSESSMENT	STRONG
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SSCOPE AREA	RESULT	RATING
Objective A: Verify that internal controls over the cash management processes, including cash forecasting, electronic funds transfer and cancellation of warrants, are designed to ensure the effective management of the processes and address all key risks.	We identified 13 controls to be in place in the process. We identified one opportunity for improvement: <ul style="list-style-type: none"> • Ensure that the duties of preparing and reviewing the cash forecasting workbook are appropriately segregated 	STRONG
Objective B: Ensure that the controls in place over high-risk processes and procedures are operating effectively to ensure that Cash Management functions are appropriately forecasted, recorded, monitored, and reported.	Controls in place were operating as designed.	STRONG

Other opportunities for improvement were identified through our interviews, evaluation of internal control design, and transactional testing. These observations include those items that are not considered to be non-compliance issues with documented agency policies and procedures. These are considered process improvement observations and the intent of the recommendations are to strengthen current agency processes and controls. These observations were provided to management separately.

CONCLUSION

Based on our evaluation, the Cash Management function has procedures and controls in place to conduct effective management of the significant processes within CPRIT. However, we identified one opportunity to improve the effectiveness of the controls within the Cash Management process. Specifically, CPRIT should establish segregation of duties in preparing and reviewing the cash forecasting workbook.

Internal Audit will conduct follow-up procedures to validate remediation efforts in Fiscal Year 2017.

**DETAILED PROCEDURES PERFORMED, FINDINGS,
RECOMMENDATIONS AND MANAGEMENT RESPONSE**

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**DETAILED PROCEDURES PERFORMED, FINDINGS, RECOMMENDATIONS
AND MANAGEMENT RESPONSE**

Our procedures included interviewing key personnel responsible for the Cash Management process to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state.

Objective A: Design of Internal Controls

Verify that internal controls over the cash management processes, including cash forecasting, electronic funds transfer and cancellation of warrants, are designed to ensure the effective management of the processes and address all key risks.

1. Procedures Performed: We gained an understanding of the current Cash Management processes by conducting interviews with key personnel; reviewing existing procedures, standardized forms and documents used by CPRIT’s personnel; and assessing CPRIT’s administrative rules to identify key controls. We examined the following sub-processes:

- Cash Forecasting
- Electronic Funds Transfer (EFT) Processing
- Cancellation of Warrant Review and Approvals
- Uniform Statewide Accounting System (USAS) Privileges

We evaluated the controls identified against expected controls to determine whether the identified reoccurring cash management procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the Cash Management process. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

Results: We identified 13 controls in place over the significant activities within the Cash Management function. We identified one finding where improvements in the process can be made.

Cancer Prevention and Research Institute of Texas Cash Management - Control Design Evaluation		
Sub-Process	Identified Controls	Findings
Cash Forecasting	2	Finding 1
Electronic Funds Transfers (EFT) Processing	5	
Cancellation of Warrant Review and Approvals	3	
Uniform Statewide Accounting System (USAS) Privileges	3	
Total	13	1

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Finding 1 – MODERATE – Cash Forecasting Segregation of Duties: The CPRIT cash forecasting workbook, including critical inputs, assumptions, and calculations, is not reviewed and approved for accuracy and completeness by another CPRIT employee. The Chief Operating Officer (COO) manually enters data into the workbook, which is used to plan the timing of bond issuance to meet the needs of the agency.

Recommendation: CPRIT should ensure that the cash forecasting workbook is reviewed and approved by another CPRIT employee. The workbook could be prepared by the Operations Specialist and reviewed by the Chief Operating Officer, or prepared by the Chief Operating Officer and reviewed by the Chief Executive Officer or Deputy Executive Officer and General Counsel. The review should be documented and evidence evaluation of the assumptions, inputs, and outputs used in the cash forecasting workbook. The reviewer should ensure that the timing and amounts of all cash inflows and cash outflows identified in the cash forecasting workbook agree to supporting documentation. Finally, the reviewer should ensure that any cash shortfalls identified are addressed timely.

CPRIT Management Response: CPRIT management agrees that there should be a secondary evaluation review of and sign off on the general obligation bond proceeds cash forecasting workbook. Management will determine how best to accomplish the secondary review.

Responsible Party: Chief Executive Officer, Chief Operating Officer
Implementation Date: December 1, 2016

Objective B: Effectiveness of Controls

Ensure that the controls in place over high-risk processes and procedures are operating effectively to ensure that Cash Management functions are appropriately forecasted, recorded, monitored, and reported.

1. Procedures Performed: We obtained the current cash forecasting workbook and verified the following:

- All appropriate and key factors were considered, including the following:
 - Period beginning balances
 - Anticipated cash inflows
 - Anticipated cash outflows
 - Comparison of predicted cash flows to actual cash flows
 - Comparison of current cash flows to historical cash flows
 - Shortfalls are identified and resolved timely
 - Forecasts are made conservatively
- Cash forecasting was performed on a quarterly basis
- Cash forecasting covered appropriate Fiscal Year and Appropriations Year durations and that durations were consistent
- Bond issuance amounts included in the workbook were accurate

Results: No findings identified.

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2. **Procedures Performed:** We selected a sample of 50 EFTs during the scope period of September 1, 2014, through June 30, 2016, and verified the following:

- EFT disbursement request was reviewed for accuracy and appropriateness
- EFT disbursement was accurately recorded in USAS
- EFT disbursement was reviewed, approved, and released by a separate user than the preparer

Results: No findings identified.

3. **Procedures Performed:** We selected all four warrants cancelled during the scope period of September 1, 2014, through June 30, 2016, and verified the following:

- Cancelled warrant was appropriately approved
- Cancelled warrant was accurately recorded

Results: No findings identified.

4. **Procedures Performed:** We obtained the user access list to USAS as of April 1, 2016, and the semiannual reviews of user access completed during the audit period of September 1, 2014, through June 30, 2016, and verified the following:

- Access was appropriate based on job roles and responsibilities
- User access was reviewed on a semiannual basis
- Inappropriate access was identified and addressed timely

Results: No findings identified.

APPENDIX

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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

REPORT RATINGS

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the agency
- Agency objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
 - Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations and programs
 - Safeguarding of assets
 - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

Strong	The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.
Satisfactory	The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.
Unsatisfactory	The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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RISK RATINGS

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the agency's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of the agency or beyond a single function or department
- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior agency management

Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of the agency
- Impact could be felt outside of the agency or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of the agency
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior agency management to be updated

Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the agency's strategic priorities
- Impact is limited to a single function within the agency
- Minimal financial or operational impact to the organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk